

# In Defense of New Sports Stadiums, Ballparks and Arenas

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## SYMPOSIUM

# IN DEFENSE OF NEW SPORTS STADIUMS, BALLPARKS AND ARENAS

ALLEN R. SANDERSON\*

### I. INTRODUCTION

For sports fans, sports writers and commentators, team owners and leagues, big-city mayors and a bevy of economists, the decade of the 1990s will certainly be remembered as one with a veritable explosion in stadium construction and the relocation of professional sports franchises. Within a few years, 80% of these teams may be playing in facilities built since 1990, and at a combined cost of over \$20 billion.<sup>1</sup> A complementary and literal explosion, of course, was the demolition of older ballparks, or at least the abandonment of them. Comiskey Park, Chicago Stadium, Fulton County Stadium, the Kingdome, 3Com (a.k.a. Candlestick) Park, the Astrodome, Municipal Stadium, and Tiger Stadium are but a few of such facilities, some remembered more fondly than others.

While public officials, local boosters, and league representatives all point to the tremendous financial and non-financial benefits associated with having a professional sports franchise and new state-of-the-art facility in one's backyard, many economic studies have come, more or less, to the same conclusion: stadiums do not serve as catalysts for economic development, nor do they constitute good public investments.<sup>2</sup> In large part, this is because consumers merely substitute one item with another

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1. See John Siegfried & Andrew Zimbalist, *The Economics of Sports Facilities and Their Communities*, 14 J. ECON. PERSP. (forthcoming Spring 2000).

2. See SPORTS, JOBS AND TAXES: THE ECONOMIC IMPACT OF SPORTS TEAMS AND STADIUMS (hereinafter SPORTS, JOBS AND TAXES) (Roger G. Noll & Andrew Zimbalist eds., 1997) [hereinafter SPORTS, JOBS AND TAXES]; Robert Baade & Allen R. Sanderson, *Cities Under Siege: How the Changing Financial Structure of Professional Sports is Putting Cities at Risk and What to Do About It*, in ADVANCES IN THE ECONOMICS OF SPORT 77 (Wallace Hendricks ed., 1997); MARK S. ROSENTRAUB, MAJOR LEAGUE LOSERS: THE REAL COST OF SPORTS AND WHO'S PAYING FOR IT (1997); DEAN V. BAIM, THE SPORTS STADIUM AS A MUNICIPAL INVESTMENT (1994); KENNETH L. SHROPSHIRE, THE SPORTS FRANCHISE GAME (1995).

in their dollar and time allocations for recreation and entertainment, or in the case of city and state government officials, there is a comparable substitution in their capital and operating budgets, reallocating monies that otherwise would have gone to schools, pot-hole repairs, and police. While franchises and new stadiums may create a few jobs, they do so at a relatively high per-job cost. In addition, there are substantial leakages — monies that leave the immediate metropolitan area, such as portions of owners' profits, players' salaries and revenue-sharing obligations — that significantly reduce the potential expenditure impacts.

Furthermore, one also has to factor in the substantial leverage that a cartel, such as the National Football League (NFL), or Major League Baseball (MLB), has in any negotiations with a city. If that unit exercises its market power effectively, some of the economic benefits that might otherwise accrue to a metropolitan area from having a new team or facility will be siphoned off in the form of both, up-front commitments, and subsequent multi-year subventions by the league and its members, leaving the city no better off with a team or new building than without one. Thus, team or Chamber of Commerce estimates of a franchise or a facility contributing several hundred million dollars annually to an urban area are likely off by at least a decimal place (that is, ten percent of the announced dollar figure may be much closer to financial reality than that touted publicly).

Moreover, in terms of revenues and employment, sports franchises are relatively small financial fish located in very large economic ponds. It is perhaps not surprising that empirical work by economists leads to a "no-impact" conclusion. Even leaving aside substitutions, leakages, and net-versus-gross estimates of value added, adding a commercial entity that generates \$50 million to \$100 million in gross revenues in a metropolitan area that may have a "gross local product" of \$100 billion or more, is simply too small to matter or to measure with sufficient precision in any econometric analysis.<sup>3</sup> Finally, and on the other hand, any accurate financial accounting would likely fail to capture most important roles in terms of culture, socialization, and identification that sports play in American society today, interests and activities that do not go through a cash register or appear on ledgers.

In sum, the empirical evidence suggests strongly that the primary beneficiaries of stadium construction and team relocations are the cartel

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3. This also holds for the aggregate economy, where expenditures in the sports industry, properly defined (that is, netting out "double counting" and other embellishments) is only 0.1% of Gross Domestic Product (GDP).

leagues, team owners, players, and diehard fans, while the losers are taxpayers, both locally and nationally, and the net bottom-line impact is minimal. Thus, with no potential efficiency gains to capture and some likely equity concerns, one would be hard-pressed to argue for the allocation of substantial public funds to support such activities on economic grounds alone.

These new stadiums, ballparks, and arenas — deemed amusement parks for millionaires by some critics — are not necessarily bigger. In fact, in some cases they are considerably smaller than the ones they replace.<sup>4</sup> The “new” Comiskey Park is the same size as the one it replaced. The Ballpark at Camden Yards and Safeco Field are smaller than Municipal Stadium, Memorial Stadium and the Kingdome respectively.<sup>5</sup> However, they have some common characteristics; they are larger on the outside, more expensive to build, more luxurious on the inside, and include a redistribution of seats more toward luxury suites and premier boxes. They also contain more amenities such as Diamondvision scoreboards with instant-replay features, museums and gift shops, more marketing promotions and fireworks displays, and an array of food and beverage emporiums. They are for single-use or single-sport purposes (even now in ice hockey and basketball), and many are being erected in city-center locations, with public funding, directly or indirectly, constituting a large proportion of the total outlays.

There have been many reasons put forth on both, or perhaps more appropriately, all sides, to explain the rate at which new facilities are being erected, the decidedly upscale nature of them, and the increased share of public financing behind them. A growing corporate culture, the widening inequality of income in this country (which some authors contend has catered to the “haves” with regard to the more affluent sport fans), standard public choice theory (in which special interests prevail), and tax laws which offer implicit subventions for public construction, are three such arguments. However, it is the contention of this paper that in addition to those now-familiar positions there are a set of alternative theoretical points and considerations some of which represent the normal ebb and flow of economic activity and the underlying state of the economy, many of which are far more mundane, benign, and certainly

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4. This was not always the case; as steel and concrete replaced wood as the principal construction materials after the turn of the (last) century, it was possible to expand the vertical dimensions of stadiums, and thus seating capacity increased accordingly. The fact that in most instances these new facilities simply replace existing ones is also a complementary argument why there is little new net spending in an area attributable to a stadium.

5. New arenas in the NBA, however, tend to be larger than the ones they replace.

less sinister than either proponents or opponents of teams and facilities have allowed, that may go a long way toward explaining this alleged construction boom in the American professional sports industry, as well as the proportion of it that involves public funding.

The sections that follow provide a brief summary of the traditional stadium arguments and evidence, discuss commercial and personal changes in a dynamic economy in general, place the current sports facility boom in a broader context, and offer alternative, or at least complementary theoretical explanations, to account for public and private decision making as it relates to financing these buildings. Conclusions are presented in the final section. Although providing more questions than answers, the discussions below should nevertheless suggest ways in economic theory and empirical research that can shed additional light on what have been to date very heated debates.

## II. THE TRADITIONAL ARGUMENTS AND EVIDENCE

As espoused by proponents of building a new sports stadium or attracting a new, or existing, professional sports franchise (generally the league itself, a team's owner(s), and some segment of the political leadership, i.e., a mayor, city council, governor, or state legislature), there are both tangible and intangible reasons behind wanting a team or a new facility. The former include the set of quantitative, or at least theoretically quantifiable, benefits: increased business activity, greater employment and tax revenues in general, being able to "import" revenues from (or "export" services to) regional or even national constituencies, or the revitalization of a particular area of the city in particular. The latter include the more qualitative appeals such as city unity, "civic pride," and some notion of the team conferring "big league status" on the community.

Unfortunately for these boosters, as noted above, there is a large and growing body of economic literature that purports to debunk the assertions of direct economic benefits from the presence of a new team or new facility.<sup>6</sup> These scholars then turn to an alternate explanation for the flurry of activity: special-interest groups — the leagues, team owners, rabid fans, construction unions, the media, and so forth — that engage in rent-seeking behavior to tap local and national funds for their own benefits, as well as potential subventions via current tax policies and flawed accounting estimates that ignore opportunity costs, or city-owned prop-

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6. See *SPORTS, JOBS AND TAXES*, *supra* note 2; Baade & Sanderson, *supra* note 2; ROSEN-TRAUB, *supra* note 2; BAIM, *supra* note 2; SHROPSHIRE, *supra* note 2.

erty, or assign costs to other ledgers, or bury them altogether, providing incentives for cities and teams to build stadiums and to build them with public dollars.

However, the second set of benefits — those that are indirect, some of which may nevertheless be theoretically measurable — have received less notice, except in the rather inflated rhetoric and claims of those advocating public action. In addition, it is possible that the observed behavior on the part of cities, teams, and fans has relatively little to do with special-interest groups, rent seeking, cartel theory and public tax policies, though each of these may “aid and abet” what may otherwise be rather natural personal and commercial behavior when examined in the context of the larger economic environment.

Although most of the arguments and evidence turn on questions of efficiency — that is the extent to which the expenditure of public monies constitutes a wise investment of tax dollars, and thus “more than pays for itself” through increased employment, higher retail volume and tax revenues, and revitalization of some inner-city area within the metropolitan region. There are also equity, or fairness issues to consider, such as, do stadiums, whatever their rate of return, entail redistributions of wealth, specifically transfers of income from lower- and middle-income taxpayers to the more well-heeled, team owners, players, affluent fans, local and national corporate interests? Or, do taxes on hotels, rental cars, and restaurants to pay for construction tap the wealthier segments of the local and “foreign” population instead of the relatively poor?<sup>7</sup> For the most part, this paper is more concerned with why stadiums are being built at an allegedly accelerated pace, and considers their relative opulence, rather than their overall economic impact, or the incidence of costs and benefits.

A related equity issue surfaces in the sports economics literature as well. Forced to choose between well-heeled owners and tattoo-laden athletes, or billionaires versus mere millionaires respectively, in contentious labor-management disputes such as strikes and lockouts, some economists and the majority of media members come squarely down on the side of players. By extension, when the subject turns to sports facilities, these same writers remain anti-owner in particular, or anti-corporation, anti-wealth, and anti-market in general; they decry the expansion of luxury suites and club seating, as well as the increased presence of “suits” in them. A less normative and more objective appraisal might be

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7. See Dennis Zimmerman, *Subsidizing Stadiums: Who Benefits, Who Pays?*, in *SPORTS, JOBS AND TAXES*, *supra* note 2, at 119.

that there is precious little in economic theory to suggest that in the case of owners versus players, one party is more entitled than the other to what are essentially economic rents, or that even monopolists increase their profitability by responding to consumer wants rather than trying to thwart them.<sup>8</sup>

### III. NATURAL MARKET FORCES AND PERSONAL DECISION MAKING

On the one hand, as economists are wont to say, there is absolutely nothing amiss with new business construction and renovations. It is part and parcel of normal commercial activity. Hotels and malls either renovate and upgrade their facilities and amenities, or they lose customers; and they periodically migrate, as Willie Sutton would have advised, to where the money is. That is, they follow population and income changes nationally and within an urban area. Movie theaters now offer patrons reservations, "stadium-style" seating, and other personal benefits to those who are willing to pay for them; the mix between large (i.e., 1000 seats), and more intimate environments (i.e., 150 seats), has also changed. Performing-arts centers are finding that luxury suites and complementary amenities are not just for the sports world.<sup>9</sup>

Cruise ships, which attract six million customers a year, have added ice skating rinks and rock-climbing walls to lure more passengers. Borders, Barnes & Noble and other bookstore chains provide a wider array of merchandise — video and audio tapes, greeting cards, book-signing sessions and lecture series — and now also devote, as a matter of course, a social corner with upscale beverages and snack items as the line blurs between simply buying a book and having an enjoyable social experience in the process.

Airlines use frequent-flyer programs, more business-class seating, private lounges, and other perks to cater to their most important customers. To attract faculty members and applicants, colleges and universities

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8. When the subject is stadia, writers often tend to forget that in a system in which there is explicit or implicit revenue sharing among owners and players, the latter benefit as much as the former when new facilities produce higher team and league revenues.

9. Criticisms of corporate culture by academics and sports writers, who bemoan the addition of named sponsorships to college football bowl games, NBA arenas, and even the Heisman trophy, as well as Fortune 500 Chief Executive Officers owning sports franchises, overlook the fact that many university buildings, lecture halls and endowed professorships, art museum galleries and exhibitions, symphony orchestra performances and even individual arm-chairs generally bear the names of corporations or wealthy sponsors. Furthermore, complaints against the use of Personal/Permanent Seat Licenses (PSLs) by NFL teams in their new stadiums overlook the fact that in allocating prime seating, universities and symphony orchestras have used an equivalent device for decades.

are constantly adding to and renovating their research capabilities and dormitories, expanding and upgrading athletic facilities, and providing more in the way of cultural amenities.

On the personal side, we trade in our cars regularly for new ones, but not because one has worn out — today's automobiles are certainly capable of providing a dozen years' and 150 thousand miles of service, far more than the odometer readings at the time of the typical exchange. Nor are we perpetual victims of slick advertising or feel discretionary income burning holes in our pockets. Rather it is because the new models are more attractive; they provide enhanced performance and contain more features, such as air conditioning, compact disc players, fax machines, television sets, more comfortable seating, additional safety and security items, and most important of all, cup holders for our Starbucks coffee and Evian water bottle, another indicator of demand-driven innovations in an affluent society.

At home we renovate and upgrade our kitchens and bathrooms; we replace the roof and water heater every fifteen years; we repaint, re-carpet rooms, and buy new furniture; and we replace an existing television set with a larger one and buy add-on sets for the bedroom and kitchen — the majority of United States (U.S.) homes have more than one television and video cassette recorder. Some of these expenditures are the result of normal depreciation, but many others stem from cosmetic, taste, income and technological considerations and innovations. We even trade in spouses, though the current ones are perfectly adequate.

Our fickleness extends to entertainment viewing where even the most popular sitcoms and drama series — *M\*A\*S\*H*, *Cheers*, *Seinfeld*, *Hill Street Blues*, *L.A. Law*, *ER* — rarely last a decade. A new hit movie usually vanishes from first-run theater screens within a month or two. For a new novel or non-fiction work, appearing on the *New York Times* bestseller list is generally brief, and there is empirical evidence to suggest that the stay is getting progressively shorter even for the most popular authors.

There is also a natural ebb and flow for the human body. As we age we acquire eyeglasses, then bi-focals, and hearing aids, we consume medical advances such as more powerful medications, hip replacement and open-heart surgery. The market for cosmetic surgery is booming. And then there is *Viagra*. Though try as we might through dietary ameliorations and supplements, reductions in tobacco and alcohol consumption, wearing seat belts and exercising more, for the most part we cannot repeal the general tendency for life to wind down and come to a halt at



around age eighty-five. Nevertheless, we are not dissuaded by this stark reality from attempting to soften or even repeal nature's ultimate constraint.

What determines the pace of these ordinary commercial and personal decisions? Given normal wear-and-tear depreciation, to a large extent it is economic growth and the rate of technological change. With larger incomes and more wealth we "trade up," partaking more of goods with high income elasticities — foreign travel, private education, recreation, more expensive automobiles and clothing options, a Lexus instead of a Taurus, Nordstrom rather than Sears. We consume better food and beverages, and take a higher proportion of them in restaurants; even grocery stores are catering to the changing demographics with more ready-to-eat items that appeal to the affluent and economize on time. Hotels and airports offer exercise areas, computer/networking stations, and fax machines.

The increased power and lower price of computer equipment make us dissatisfied with anything more than a year or two old. Laser printers have replaced dot-matrix machines. Compact discs have virtually eliminated the 33rpm album and may soon displace cassettes entirely. Within the next few years current analog television sets and VCR tapes will also disappear from the market. As a matter of pure convenience, rotary phones gave way to touch-tone models. Then technology and amenities, including the Internet and other uses that employ digital signals, finished off rotary phones completely. Cellular phones will likely do the same for hard-wired systems in the office and at home. Where technology proceeds at a more rapid pace, the price we pay for standing pat is larger, and thus, at work or play we are more likely to want the latest models and features, at attractive prices.

The last fifteen years also represent, except for a brief seven-month downturn in 1990-91, the longest economic expansion in U.S. history. Per capita incomes and wealth have increased dramatically for a large segment of the American population, certainly the segment most likely to attend sporting and other cultural events.<sup>10</sup> It is not surprising then, that when it comes to both participant and spectator sports, we should also follow a natural trading-up pattern. The same phenomenon occurred in the 1920s, another sustained period of rapid economic expan-

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10. See Shannon Dortch, *The Future of Baseball*, AM. DEMOGRAPHICS, Apr. 1996, at 22, 22; Siegfried & Zimbalist, *supra* note 1; John Siegfried & Timothy Peterson, *Who is Sitting in The Stands? The Income Level of Sports Fans*, in *THE ECONOMICS OF SPORTS: WINNERS AND LOSERS* (William Kern ed., forthcoming 2000).

sion; it was an era of tremendous public and private construction in the United States.

Many U.S. households now have more than one television set, telephone line, and automobile, and families tend to specialize as well: one television or phone for the family room, another for the bedroom, one in the kitchen. One vehicle may be a sports utility vehicle (SUV), or minivan, and is used for hauling larger cargo, more passengers, or simply for pure enjoyment. The second car may be for more sedate activities or business purposes. Third cars, and three-car garages, are fast becoming the norm in suburban and western locations. In a less affluent age, the family car had to serve these many purposes.

Amateur golfers and tennis players seek an advantage with the latest innovations in equipment; cyclists and runners are willing to spend freely to increase their speed and reduce their physical aches and pains. Owing to a "demand for tradition" and accepted rules of play, the on-field technological change in baseball and other professional team sports may be slow or non-existent — there will still be nine baseball players on a side, and bats will be made of wood. But, the quality of gloves and bats has changed significantly over time, as have some official rules (use of a designated hitter in the American League, the three-point shot in the NBA, two-point conversions in football) and unofficial enforcement, or lack thereof (the strike zone in baseball, what constitutes "traveling" or "palming the ball" in basketball).

To the extent that games also constitute entertainment, and any casual observation of the set of complementary activities at a ballpark, stadium or arena on game day would suggest strongly that the athletic contest itself may not be the primary attraction for the model patron, at higher levels of income that means a demand for less personal suffering and more comfortable seating, better refreshments, and other stadium amenities. If grass could grow indoors, as someday with technological advances in agriculture it will, domed football stadiums will be ubiquitous in cold-weather or rainy climates; high-priced retractable roofs in newer baseball parks such as in Seattle or Milwaukee are the second-best climate accommodation, especially in areas where rain, heat or cold are likely impediments. It is the rare car buyer nowadays who does not prefer air-conditioning, an automatic transmission and a compact disc player.

The move away from the cookie-cutter combination facilities of the 1960s toward single-purpose stadiums may reflect the power and leverage of each league cartel, but it may simply mirror private tendencies and responses to more affluence — on the individual level we have "sec-

ond cars" and in an increasing number of cases "second homes;" the public counterpart is a "second stadium" rather than a multi-use facility. Colleges with big-time athletic programs often have separate venues for football, track and soccer rather than accepting marginal adjustments and defects in accommodating all three sports in one location. To be sure, the move toward single-use facilities is consistent with the preferences of the cartel leagues and team owners who can extract more revenues, as long as they are not saddled with the capital or operating costs, and who have, with regard to football, conspired to keep the supply of franchises low enough to create and then accentuate the incompatibilities between a forty-thousand seat baseball park and a seventy-five-thousand seat football stadium.<sup>11</sup> But it may be equally compatible with private preferences, and even civic preferences, in an affluent society.

#### IV. STADIUMS: THE PACE OF AND NEED FOR CHANGE

As chronicled in several accounts, the decade of the 1990s represented a period of enormous activity in terms of construction of facilities for professional sports teams, and the early years of the twenty-first century will witness a continuation of that boom and those commitments.<sup>12</sup> While extraordinary in number and dollars, the most recent boom cannot be understood in isolation; the volume and periodicity both beg for "relative to what" contexts. New stadiums and renovations of existing ones are as much a part of professional team sports as the games themselves. Relocations of franchises and construction projects have always followed overall population levels and their distributions across the country from the northeast to southwest and from city centers to outlying suburban concentrations (and perhaps back),<sup>13</sup> as well as simple expansion in the number of franchises within each league and phases of the underlying business cycle.<sup>14</sup>

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11. An expansion in the number of NFL franchises, including additional teams in most metropolitan areas, would mean adequate seating in the typical baseball park to accommodate football fans — in Chicago, for example, one team would play in Wrigley Field and another in Comiskey Park, as they did when the Bears and Cardinals both played in the city, and thus the need for a 75,000-seat facility for the Bears would seem far less urgent.

12. See JAMES QUIRK & RODNEY FORT, *PAY DIRT* (1992); *SPORTS, JOBS AND TAXES*, *supra* note 2; MICHAEL N. DANIELSON, *HOME TEAM* 235-52 (1997).

13. Only three of the largest ten cities in the United States in 1900 were still in the top 10 by 2000 — New York, Chicago and Philadelphia.

14. In 1900, across what we currently consider the four principal professional sports leagues, there were a total of sixteen teams — all in baseball. The U.S. population at that time was 76 million. By 1960 the number of teams had grown to fifty-one (population doubled in that sixty-year period), with all four leagues represented. In 2000, with a U.S. population four

Technological changes in building have also facilitated change and quickened its pace. The early part of the twentieth century, in part driven by building innovations, saw the first flurry of activity for new baseball parks as reinforced concrete and steel structures replaced wooden ones.<sup>15</sup> After a period of relative dormancy until after World War II, the second wave of significant construction occurred in the 1960s and early 1970s, creating many, but certainly not all, of the new stadiums, and many multipurpose facilities that have been replaced, or are scheduled to be replaced, in the third large construction boom begun in the 1990s. The second wave corresponds not only to technological innovations such as improvements in stadium lighting and the advent of television broadcasts, but also a period of substantial economic growth.

The third, and current, wave of stadium construction entails not as much in the way of technological aspects as the first two, nor perhaps even the physical obsolescence inherent in the early phases, but rather change in the economics of sports stadiums, as venues themselves are capable of generating larger revenue streams, and tax codes offer greater subventions for owners and public officials.<sup>16</sup> The observed shortening of the "shelf life" of relatively new stadiums, ballparks and arenas is being driven more by economics than engineering. Nevertheless, there are indications that team owners and league officials are not the only ones on the demand side of the equation. The combination of steady per capita income growth and underlying income elasticities, along with the existing capital stock of stadiums, have undoubtedly fueled the observed construction boom over the last decade and the beginning of a new century. Furthermore, the continued melding of sports and entertainment adds another demand dimension as venues are adapted and constructed to incorporate these new considerations.

Nostalgia, which seems to be more associated with baseball than the other three professional team sports, creates compelling stories and laments about the demise of our older shrines, such as Tiger Stadium and Fenway Park.<sup>17</sup> A more objective appraisal might be that Tiger Stadium (1912), Comiskey Park (1910), the venerable Fenway (1912), and Chicago Stadium (built in 1926 and former home to the NHL Blackhawks and then the NBA Bulls), all constructed well before the advent of tele-

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times larger than in 1900, there are a total of 118 franchises, or 132% more than at the outset of the last construction boom in professional sports.

15. See G. EDWARD WHITE, *CREATING THE NATIONAL PASTIME* (1996).

16. See Zimmerman, *supra* note 7.

17. Facilities' names in baseball also reflect the difference: They are more likely to be called "fields" or "parks," as in Wrigley Field or Fenway Park, rather than "stadiums."

vision, jet travel, air conditioning and computers, were simply outmoded, worn out, and needed to be replaced.<sup>18</sup> They were dank; they had narrow aisles, obstructed views, and limited restroom and concession space. They lacked other amenities desired by today's fans, such as more sophisticated scoreboards, expanded drink and food menus, historical and contemporary displays, and comfortable seating. As the line between sports and entertainment continues to blur, and the contest itself and location in which it is played are seen as complementary goods, the quality of the venue increasingly matters.

One must also recognize that in some cases we simply make personal, commercial and public sector mistakes, or at least recognize *ex post* that what was perceived as a new trend was merely a fad or blip above or below a longer-term trend line.<sup>19</sup> Wide sidewall tires, narrow ties, peg-leg and bell-bottom trousers, pet rocks, the New Coke, various McDonald's "adult" sandwiches, Y2K emergency supplies, and public housing projects — Pruitt-Igoe in St. Louis and CHA complexes in Chicago — come to mind. In other instances, such as drive-in theaters and eight-track tapes, technological change produces commercial dinosaurs. Multipurpose stadiums, facilities with artificial playing surfaces, and even the "new" Comiskey Park may fall under these headings. Seattle's Kingdome was often described in such terms.

Apart from the building boom driven by natural economic forces, such as income growth, technological change and the growing entertainment demands, there are logical arguments without resorting to boosterism on the one hand, and cold, hard theory and empirical findings on the other to justify spending more total money, and more public money, on professional sports. These considerations would include: (1) the extent to which public funding for sports stadiums is different than, or consistent with, changes in public sector commitments for other purposes over time; (2) the presence of positive externalities and the public-goods nature of sports, which could justify public subsidies; and (3) welfare or surplus aspects. These are treated sequentially in the sections that follow.

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18. Perhaps clinging to the past with regard to facilities is "a guy thing" — never wanting to part with a used pair of sneakers or a favorite, albeit tattered, t-shirt.

19. In Washington, D.C. and other political circles the proper phrasing of these cases, always employing the passive voice, would be "mistakes were made."

A. *The Pace, Relative Levels of Subventions and Politics*

Several scholarly studies, and perhaps thousands of media stories, have described the construction of new sports facilities in the last decade, both the number and dollar volume as well as the share (depending upon the assignment of suite rentals, naming rights, and other revenue streams) that can be construed as public financing. The conclusions are uniformly the same: Substantial growth in building, more expensive stadiums, and a higher proportion of funding comes from various public troughs.

On the other hand, we may want to determine the extent to which the pace and scope of stadium construction have expanded, given the initial capital stock and intervening technological changes, at rates faster than have occurred in other public and private arenas, as well as the extent to which public financing is consistent with, or inconsistent with the allocation of public expenditures for other metropolitan purposes.

In these times of general economic expansion, cities and the federal government have been able to expand convention facilities, initiate and complete highway and road-resurfacing projects, expand and renovate airports, and provide more recreational amenities for residents. In the 1990s, for example, the City of Chicago and State of Illinois provided virtually all of the \$160 million to replace Comiskey Park for the White Sox and \$60 million or more in infrastructure for the United Center to house the Bulls and Blackhawks.<sup>20</sup> Over that same time period, however, with virtually 100% public financing, Chicago has re-routed one of its major city-center roads (South Lake Shore Drive) and completely re-vamped another (North and South Michigan Avenue), re-surfaced all four of its metropolitan Interstate arteries, undertaken massive downtown recreational developments (Navy Pier, Millennium Park), opened the third — and by far the largest — building in the McCormick Place convention center, added extensively to Midway Airport's infrastructure (roads, a parking garage, and elevated train), spent close to \$100 million in infrastructure in preparation for the 1996 Democratic National Convention, completed its "Museum Campus," extended its fixed-rail public transportation lines, installed ice skating rinks in a dozen neighborhoods, demolished and reconfigured substantial portions of its public housing, implemented plans to improve parks, bike paths, beaches and boating

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20. For a detailed description of spending on sports facilities over time in Chicago, as well as precise dollar amounts for non-sports civic spending in the 1990s, see Robert Baade & Allen R. Sanderson, *Bearing Down in Chicago: Location, Location, Location*, in *SPORTS, JOBS AND TAXES*: *supra* note 2, at 324.

facilities along its twenty miles of shore line, and planted trees and flowers along roadways and in park areas throughout the city. Each of these projects represents multi-million dollar commitments.

With a mix of public and private support, the city's cultural and educational institutions have also taken comparable steps to expand and upgrade the following: an underground parking garage for the Museum of Science and Industry, a renovated concert hall for the Chicago Symphony Orchestra, a new building for the Museum of Contemporary Art, and new academic, medical, recreational and housing construction on the campuses of Northwestern, Illinois Institute of Technology, the University of Illinois at Chicago and the University of Chicago.

Over the last several decades, the percentage of income spent on health care in the United States has doubled, and the proportion of those expenditures that have come from government sources has increased commensurately. For example, in 1965, 26% of total health care costs came from public sources; in 1996 it had risen to 45%, with the out-of-pocket portion of spending by recipients falling from 42% to 17% over that period.<sup>21</sup>

In addition, colleges and universities contain an enormous number of academic cross subsidies. Although undergraduate tuition is generally uniform across fields and years of study, it must certainly cost less to service a philosophy major than a student who concentrates in molecular biology, and freshmen in large sections receive fewer per-capita educational resources than seniors in smaller seminar-style courses. A long-standing contentious debate, in the press and on campus, continues on the extent to which undergraduate students may be underwriting the costs of graduate education and research at major universities with their tuition.

There are clearly special-interest groups in sports, and they extend well beyond the traditional set of rent-seeking claimants — team owners, players, diehard fans, construction unions and national, local and cable television stations. Local newspaper beat writers, radio and television sports talk show hosts, agents, owners of sports bars, and purveyors of logo apparel all derive some net gains from not only the presence of a franchise or facility, but also the team's winning percentage and championship hopes, which sell tickets, advertising, and merchandise.

The question is not whether special interest groups exist in professional team sports, but rather how much power they possess in absolute

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21. See *Statistical Abstract of the United States*, U.S. BUREAU CENSUS 118 (1998) (Table 164).

— that is, the extent to which they can siphon off public monies directly and indirectly for their narrow purposes — and relative terms, such as the strength of this particular lobby versus environmental groups, public education unions, the gambling and liquor industries, sugar and peanut growers, the American Association of University Press (AAUP), and the myriad of other special interest groups that walk the land and halls of Congress. How many of such programs and activities would pass a well-formulated benefit-cost test? Corporate welfare is certainly not an issue confined to matters of sport.

In addition to these efficiency matters are ones that touch upon fairness: Through an examination of expenditure and revenue sources, given overall utilization and tax incidence, does construction of sports facilities entail more or fewer equity concerns than other programs and projects paid for largely with public monies, from convention centers and hospitals, to education and recycling, to freeways and airports? The same question may be asked about the abundance and location of golf courses and garbage dumps. The answer to that question turns in part on the distribution of benefits, to which we now turn.

### *B. Externalities*

Although, as noted above, the literature is reasonably clear that sports teams and stadiums do not contribute much, if anything, to overall economic growth, to the extent that there are significant positive externalities or “spillovers” from the presence of professional sports in an area, one could justify the use of some public subventions on efficiency grounds.<sup>22</sup> In sheer numbers, the impact of professional sports has to be small; employment on a full-time-equivalent basis is relatively small, and team revenues are generally well under \$100 million annually, modest totals in comparison with the typical big-city department store, for example. Aggregate attendance figures can also be misleading. The typical NFL team may play its regular season in front of about five-hundred-thousand home fans, or a significant fraction of any urban area’s population, and given that football, hockey and basketball rely heavily on season-ticket sales, most attendees are from the immediate area.<sup>23</sup> However, if the typical fan attends three games — season tickets are

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22. These externalities or spillovers could of course be negative in some cases: increased traffic congestion around the stadium on game day/night and perhaps, as some have argued, increased aggression in society as a whole as a result of watching and then imitating violent on-the-field behavior.

23. Average NFL attendance is about sixty-one thousand per game, and during the regular season each team plays eight home games.



generally shared among small business, social or family groupings — this may represent less than three percent of the population of a large MSA. The same approximate proportions would hold true for basketball and ice hockey as well; baseball, which plays many more games and sells fewer season tickets, would be slightly higher. A downtown summer festival such as “The Taste of Chicago,” which runs for approximately ten days, will attract a larger audience than the Cubs or White Sox for an entire season, and attendance at the Art Institute of Chicago will rival that of any of the city’s five professional sports teams over a twelve-month period.

There is, however, ample casual empirical evidence to suggest that the role of and interest in sports extends well beyond the turnstile tallies, and that beneficiaries are more likely to be “consuming” this “good” in a myriad of indirect ways. Local evening news programs devote one segment to weather and one to sports; no other aspect of urban living has a regular, dedicated slot, and extreme conditions in weather or athletics (i.e., the local team has achieved a stunning victory or gone down to a crushing defeat) may even be the lead story on the ten o’clock news. Weather, business news, sports scores, and winning lottery numbers are the staple fare on news radio stations. One section in four in the *USA Today* and the *Chicago Tribune* — and periodically on the front page and editorial columns as well — are devoted to the world of sports. These newspapers and news programs all have alternative ways to fill pages and minutes; were sports not so important to readers, viewers, and listeners they would certainly switch to something else.<sup>24</sup>

The recent deaths of Joe Dimaggio, Payne Stewart, Wilt Chamberlin and Walter Payton were accorded the space and reverence akin to that of Princess Dianna, John F. Kennedy, Jr., and other celebrities. Even after retiring from basketball, Michael Jordan’s every move is still captured by fans and media outlets somewhere.<sup>25</sup> Parking levels at O’Hare International Airport use local sports team names as mnemonic devices so that patrons can more easily locate their cars. While apparel and tote bags do not always bear a label, some brand names confer some type of status and thus names and logos are clearly visible — DKNY, Ralph

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24. A recent account noted that in spite of being in an artistic boom period nationally, in the competition for resources and space, newspaper editors are allocating more space and reporters to sports and business coverage. See Felicity Barringer, *Arts Coverage Falls Behind a Cultural Boom*, *Study Says*, N.Y. TIMES, Nov. 16, 1999, at B3.

25. For an account of the size of the pecuniary externality Jordan created during his playing career with the Chicago Bulls, see Jerry A. Hausman & Gregory K. Leonard, *Superstars in the National Basketball Association: Economic Value and Policy*, 15 J. LAB. ECON. 586 (1997).

Lauren/Polo, Tommy Hilfiger, Calvin Klein, Nautica, Patagonia, The North Face, Old Navy, Nike. The same phenomenon occurs with t-shirts, sweatshirts and caps seen anywhere from city streets to hiking trails in national parks; they often bear the name of one's favorite sports team, or in many cases, a university considered strong academically or an athletic power — Harvard and Princeton, or Michigan, which accounts for the largest dollar volume of licensed college apparel of any institution (in the 1960s and 1970s, during the heyday of its basketball prowess, that honor belonged to UCLA).

Another clear indication of the broader importance of sports teams to communities stems from the almost ubiquitous recognition at the edge of small "heartland" towns. However modest the actual achievement, or seemingly how far in the past, roadside signs proclaim that the visitor is about to enter the "Home of the Vikings, 1988 State Class AA Cross Country Champions" or similar references to boys' and girls' high school athletic accomplishments.

Sports represent a socially-consumed commodity. Water-cooler conversations and office greetings frequently turn on casual greetings such as, "How 'bout them Redskins?" Even if ardent fans are not present in the stands, they can watch games on television and radio, follow their favorite team or athlete through newspaper accounts, and exchange numbers and notions with friends, neighbors and colleagues. In the same vein, one can be quite interested in and conversant on political matters without attending party conventions, donating to campaigns or even voting.

There are likely a number of activities that do not pass benefit-cost tests on the basis of direct scrutiny, but that are nevertheless socially efficient in a broader context. Sports teams and facilities may be one, recycling programs another. Studies suggest that, on average, recycling is an economic loser because the total collection costs exceed the value of the materials to be recycled. But people, even armed with that information, and knowing that recycling is implicitly taking away from other worthwhile foregone alternatives, such as more police, parks, and street repairs, or even a tax rebate, may still vote to continue recycling their newspapers, cans and bottles because the "feel-good" factor is sufficiently large. The corresponding question here is how large the feel-good factor of a professional franchise or a new stadium is, in terms of civic pride or even some "existence value."

Many universities may lose money on their athletic programs as portrayed on narrowly defined financial ledgers, and not simply because of "cooking the books" or from operating in a "prisoner's dilemma" envi-

ronment. However, to the extent that these same institutions can parlay direct accounting losses — and this inexpensive advertising — into attracting a larger applicant pool from having its football team appear on television or in a bowl game, or generate greater alumni interest, loyalty, and donations, it is in their overall self-interest to field those squads.

A complementary factor leading constituents to support public funds for a new facility stems from basic finance theory: option value. Even if it appears that current benefits would not justify the costs, voters, and mayors or city councils faced with the prospect of spending several hundred million dollars on a new football stadium or baseball field or watching that franchise migrate to another metropolitan area, may respond rationally in a world where future benefits are uncertain and losing a franchise may appear irreversible by choosing to preserve their claim to those potential benefits.

### *C. Public Goods*

Under traditional delivery systems for athletic contests — some fans in the stands, others at home, in the office or in a bar, whether around the radio or television set, reading accounts in newspapers or arguing with friends about a team's fortunes and prospects — the enjoyment of the game and the broadcast of it have certain public good components.<sup>26</sup> In addition, to the extent that there is civic pride in a championship team that cannot be captured solely through ticket sales or the purchase of logo merchandise, there are additional free-rider aspects. Sporting events thus meet the traditional public goods criteria and contain some public goods elements — consumption is nonrival and nonexcludable, which also creates free-rider problems — and calculating a community's marginal benefit of a franchise or a facility entails the vertical summation of individual marginal benefit curves, not the horizontal summation as in the case of a private good.<sup>27</sup> This context could lead to an efficient, well-informed decision on the part of a municipal government to provide subventions to a team owner or professional sports league.

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26. Putting games on cable television or as a "pay-per-view" selection, as with most championship boxing matches, is one way to reduce the public good nature.

27. In theory, property values should increase in an area if the team or facility produced positive externalities and had sizable public goods aspects. Increased tax revenues would then capture these benefits, at least in part.

### D. Surplus

Economic efficiency is achieved when resources are allocated in such a way to maximize consumer and producer benefits or surplus. It is easy to confuse aggregate revenues with surplus, and one result is to underestimate or understate the level of welfare benefits — or losses. For example, during the 1994-95 players' strike in MLB, or the 1998-99 NBA lockout, media representatives, league officials and others, such as the U.S. Council of Mayors or individual Chambers of Commerce, reported the losses from games not played as the ticket and broadcast revenues that would have accrued had the games not been canceled, plus additional monies for lost hotel, sports bar, concession and parking expenditures. The figure put forth most often was that each canceled contest resulted in losses of \$1 million or more for the host city's economy. At the other end of the spectrum, some economists and other social scientists posited that the impact of these labor-management tussles was approximately zero because fans simply substituted one form of entertainment for another<sup>28</sup>; they attended more movies and rented videos, shopped in malls more often, and simply drank beer in locations other than baseball parks and basketball arenas.

However, any measure of the social welfare of a strike or lockout, or of a franchise coming to town or playing in a new facility, has to include consumers' surplus. Thus, the economic loss of the strike, assuming fans could not find a perfect substitute for baseball, or the benefits to football junkies of having a new team in the city, is the area under the demand curve, which could be substantially larger than a "price times quantity" summation. The output multiplied by the price provides a minimum estimate, or lower bound of the social benefit. There is at least some casual empirical observation, including some of the examples in sections above, to suggest that the demand for sports is not perfectly elastic.

If newspapers and evening news programs could fill their time and pages with other items of comparable interest, then sports segments and sections do not contain surpluses. Given the seemingly universal devotion of airtime and ink to sports stories in these popular media, one might be safe in arguing at first blush that perfect substitutes are not available. Small towns across the United States could "advertise" any number of local civic virtues on their road signs, but they overwhelming choose to honor athletes and their achievements. The same argument

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28. See John F. Zipp, *The Economic Impact of the Baseball Strike of 1994*, 32 URB. AFF. REV. 157-85 (1996); Allen R. Sanderson, *Bottom-line Drive*, U. CHI. MAG., June 1995, at 18, 18.

applies in international trade. To the extent that foreign goods and services do not have close domestic substitutes, then the dollar volume of imports for the United States, more than \$1 trillion dollars annually, understates the consumption — and investment — value of free trade.

## V. SUMMARY AND CONCLUSION

It is certainly not the intention of this paper to condone or endorse the anti-competitive practices of the professional sports leagues, including the current “usual and customary” practice of leveraging that cartel power to extract hundreds of millions of dollars from the nation’s urban areas and their citizens. Nor does the author particularly agree with former Cleveland Browns and current Baltimore Ravens owner Art Modell that for a community a football team is more valuable than thirty libraries.

The above discussions are meant, however, to revisit some issues that for the most part have various contributions to these debates holding what may arguably not be entirely unassailable positions, to lobby implicitly that welfare considerations be included in conversations and analyses, and to understand why local residents, armed with reasonable amounts of information that sports stadiums are not catalysts for economic growth nor panaceas for what ails city centers, nevertheless still vote, on average, to underwrite substantially the costs of these new facilities. It would not take much in the way of externalities, public good elements, consumer surpluses and an option value from a sports franchise to justify a commitment of, say, twenty to forty dollars a year per capita on debt service on a stadium. In a metropolitan area of two million people, that would represent the approximate annual assessment — \$40 million — required to maintain a team and a state-of-the-art facility.

One would not have to argue for irrationality, a poorly informed decision, special-interest effects, or the blatant abuse of power on the part of an owner or a league to justify an outlay of that magnitude. Applications of basic microeconomic theory might be sufficient.